

CITY AUDITOR'S OFFICE



AUDIT OF CONTROLS OVER CITY UTILITY PAYMENTS AND COSTS

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CITY AUDITOR

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BACKGROUND

The City spent over \$16.6 million on power, water, gas, and trash collections in fiscal year 2004. The approximate costs by utility type are as follows:

Power: \$11.72 million
Water: \$2.78 million
Trash: \$1.58 million
Gas: \$550,000

The City has approximately 2880 power meters, 449 water meters, 65 gas meters, and 212 trash service accounts.

Requests for utility services for city facilities and sites are made by designated city staff in the departments of Field Operations and Public Works. Accounts Payable staff process utility billings on the city mainframe and authorize payments to the utility providers.

OBJECTIVES

Our objectives in completing the audit of controls over city utility payments and costs were to:

- Review the controls over the payment of utilities.
- Review the adequacy of utility usage monitoring procedures.
- Review the adequacy of utility information available for monitoring usage and costs.
- Review the adequacy of the policies and procedures over the monitoring and payment of utilities.

SCOPE AND METHODOLOGY

Our fieldwork was performed in accordance with generally accepted governmental auditing standards. Procedures included:

- Interviews with city personnel.
- Discussions with utility company staff.
- Review of established policies and procedures related to utilities.
- Testing of established controls.
- Review of utility billing and payment documents.

Our work was limited to a review of the policies, procedures, and controls over power, gas, water, and trash service payments and costs. The use of the term utilities in this report refers only to these four services.

FINDINGS AND RECOMMENDATIONS

Our audit identified issues management should address to improve the controls over utility payments and costs. These issues are summarized in the following sections. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

1. UTILITY USAGE MONITORING

Criteria:

- Routine monitoring and analysis of utility usage and costs can help identify significant or irregular activity that can be evaluated to identify problems or reduce utility costs.
- An effective utility usage monitoring program should include the following elements:
 - Identification of those responsible for usage monitoring.
 - Identification of the scope of the monitoring program.
 - Identification of information to be monitored.
 - Frequency of monitoring.
 - Reporting guidelines.

Condition:

- The city does not have a comprehensive and coordinated utility usage monitoring program for power, gas, water, and trash services. The city's monitoring of its usage of power, gas, water, and trash service is limited to the following:
 - Parks and Open Spaces staff review gallons of water used and costs of many water meters.
 - Streets division staff review the number of cubic yards of garbage taken by staff to the city dump.
 - Environmental division staff review utility usage at the city's Wastewater Pollution Control facility.
 - Accounts Payable staff generally monitor total utility bills for any significant changes in amounts from the prior billing period.
- The future use of the mainframe for processing of utilities is currently being evaluated by the city's IT department.

Cause:

- Lack of a designated individual or department to develop and oversee a utility usage monitoring program.

- Utility usage information by facility/site and department is currently inadequate for an effective monitoring program.

Effect:

- Without a formal utility usage monitoring program:
 - Utility company billing errors may not be identified.
 - Significant fluctuations in usage may not be identified and investigated.
 - Areas where conservation measures could be taken are not easily identified.
 - Inadequate information for operational review and management planning.

Recommendations:

1. The City Manager's Office working with Field Operations, Public Works, Information Technology and the Department of Finance should coordinate the development of a comprehensive and coordinated utility usage monitoring program for power, gas, water, and trash service. In developing the program, the following should be addressed:
 - a. Identification of individual(s) and departments to lead implementation of program.
 - b. Division of oversight responsibility for meters and services.
 - c. Identification of information to be monitored.
 - d. Identification of individuals responsible for monitoring.
 - e. Frequency of monitoring to be performed.
 - f. Improvements needed in data and reports to facilitate monitoring.
 - g. Communication with utility companies.
2. In conjunction with the development of the utility usage monitoring program, Information Technologies should evaluate the needs of this program and use this information in establishing utility processing on a new systems platform.

2. UTILITY INFORMATION

Criteria:

- An effective utility usage monitoring program requires the accumulation and dissemination of useful and reliable data on utility costs and usage.

Condition:

- Deficiencies were identified in the utility information currently available as follows:
 - A mainframe report identifies differences in utility charges greater than 10% from the prior billing period with a plus or minus sign, but does not identify the percentage or amount of the difference. While this report is generated in conjunction with each billing, it does not appear to be consistently used by anyone for usage monitoring.

- While addresses are included for many meters, it is difficult to determine the site a meter is associated with by the description (i.e., firestation, community center, park).
 - Meters for some city facilities and sites are represented by multiple accounts and multiple addresses. Therefore, it is challenging to identify the total costs associated with a single facility or site.
 - The meter numbers on mainframe reports are not always the most current meter number. Certain utility companies do not update their billing records when a meter is replaced and rely on account numbers rather than meter numbers for billing purposes.
 - Gas therms used data is being input into the mainframe but is not reported on a mainframe report for monitoring.
 - Records of physical verification of utility meters are not maintained.
- Additional information may be available on the electronic/manual billings or from the utility companies that could be useful in improved monitoring of utilities. For example, Parks Maintenance personnel identified the need for information on the size of water meters and the type of water associated with the meters (e.g., potable, irrigation, mixed).
- The city receives quarterly service invoices from its trash collection provider for each account. An account is a city facility or site that has trash containers that are emptied on a regular basis. The city also receives monthly invoices for container rentals from its trash collection provider. The service rates and the container rental rates on these invoices are based on commercial service rates established by the trash collection provider. The established commercial service rates are based on container sizes and the number of pick-ups per week. The following deficiencies were identified with the information available on trash service:
- The trash service invoices do not identify the size or number of containers at an individual location or the number of pick-ups per week, only the applicable billing period and the total charges.
 - A reconciliation of trash services to billing records is not being completed as trash service information is not retained on the mainframe or in a centralized location. Therefore, there is currently no relative assurance that the city is being accurately charged for trash service. The city could begin retaining this information in a database or on a common spreadsheet for reconciliation purposes.

Cause:

- Lack of evaluation of adequacy of utility information available for monitoring purposes.
- Incomplete information on billings.

Effect:

- Utility usage and costs cannot be adequately monitored with current utility information.

Recommendation:

1. In conjunction with the development of a utility usage monitoring program, the City Manager's Office working with Field Operations, Public Works, Information Technology and the Department of Finance should address the identified utility information deficiencies and coordinate the enhancement of the utility information available for use in the program.

3. ALLOCATION OF UTILITY COSTS

Criteria:

- The financial results of an entity are most accurately reflected when all costs associated with its operations are captured and matched against its revenues.

Condition:

- In fiscal year 2004, only approximately 24% of the city's utility costs were allocated to associated cost centers for financial reporting purposes. These were costs related to enterprise and special revenue funds. The remaining 76% of the city's utility costs were allocated to the general government fund rather than being allocated to associated cost centers.
- Allocation of utility expenses to associated cost centers is not currently feasible as many of the utility meters and trash service accounts have not been assigned to cost centers for cost allocation purposes.

Cause:

- Lack of a cost allocation program for most utility costs.
- Lack of complete information on utility accounts for cost allocations.

Effect:

- Financial results of individual city departments/cost centers do not reflect the full cost of operations.
- Incomplete cost information for management decisions.

Recommendation:

1. In conjunction with the development of a utility usage monitoring program, the Department of Finance should develop and implement a more extensive utility cost allocation program.

4. UTILITY ACCOUNT APPROVAL VERIFICATION

Criteria:

- Consistent standards for the accumulation and documentation of information on new utility accounts can facilitate verification of appropriate authorization.

Condition:

- New utility services are requested by designated city staff in the departments of Field Operations and Public Works.
- When processing utility invoices, Accounts Payable clerks identify accounts on billings that have not yet been established in the mainframe. Prior to establishing a new account on the mainframe, the clerks verify that the account was authorized by a city employee through calls or e-mails to city staff. Certain departments send notifications of new accounts to Accounts Payable while others do not.
- New street lighting and traffic signal power accounts are verified by Accounts Payable clerks through reference to a spreadsheet of authorized meters maintained on a common network drive by the Traffic Engineering Field Operations (TEFO) division.
- Accounts Payable clerks include evidence of new account approvals (e.g., copy of e-mails, notes of discussions, notifications from departments) with the billing payment batches. Evidence of the approvals is not easily accessible for reference.
- Efficiencies could be achieved with more consistent standards on the communication of new utility accounts to Accounts Payable and the documentation of information on new utility accounts.

Cause:

- Inconsistencies in how new utility accounts are communicated to Accounts Payable by city departments.
- Inconsistencies in how new utility accounts are being documented and tracked by departments.

Effect:

- Accounts Payable staff must spend time obtaining information on new utility accounts.
- Approval information on new utility accounts is not easily accessible.

Recommendation:

1. The City Manager's Office working with the Departments of Field Operations and Public Works should establish consistent standards for the communication of new utility accounts to Accounts Payable and the documentation of new utility accounts.

Consideration should be given to recording new utility account information in a database or spreadsheet accessible by Accounts Payable and other city departments.

5. TERMINATED UTILITY ACCOUNTS

Criteria:

- Consistent standards on the communication and documentation of information on terminated utility accounts can facilitate the review of utility billings for continued charges on these accounts.

Condition:

- Inconsistencies were identified in how city departments communicate terminated utility accounts to Accounts Payable. Certain departments are notifying Accounts Payable of terminated accounts while others are not.
- Without being notified of terminated utility accounts, Accounts Payable staff cannot verify that the accounts have been properly removed from utility billings.
- Accounts Payable staff verify that terminated power accounts that they are made aware of are dropped from the power billings. However, these verification procedures are not being completed for terminated water, gas, and trash service accounts.

Cause:

- Lack of requirement for reporting terminated utility accounts to Accounts Payable.
- Lack of verification procedures to ensure that terminated water, gas, and trash service accounts have been properly removed from utility billings.

Effect:

- The City could inadvertently be paying on terminated utility accounts that have not been appropriately removed from utility billings.

Recommendations:

1. The City Manager's Office working with the Departments of Field Operations and Public Works should establish consistent standards for the communication of terminated utility accounts to Accounts Payable. In addition, consistent standards should be established on the documentation of these accounts. Consideration should be given to recording this information in a database or spreadsheet accessible by Accounts Payable and other city departments.
2. The Department of Finance should document and implement procedures for Accounts Payable staff to follow to ensure that the city is no longer being billed for terminated utility accounts.

6. UTILITY BILLINGS

Criteria:

- Electronic billing files facilitate efficient payment processing.

Condition:

- While electronic billing files are received for power and water, paper billings continue to be received for gas and trash services. The gas and trash service providers do not yet offer electronic billings. Accounts Payable staff must manually input information from the billings into the mainframe.
- The utility providers with paper billings sometimes send the paper bills to the city facility or site where service was established rather than directly to Accounts Payable. Delays are periodically experienced in getting the paper bills routed to Accounts Payable.

Cause:

- Electronic billings are not yet available from two utility service providers.

Effect:

- Manual data input time required for paper billings.

Recommendation:

1. The Department of Finance should explore obtaining electronic billing files from the gas and trash service providers or alternative methods to reduce manual data input.

7. UNAUTHORIZED USE OF STREETLIGHT CIRCUITS

Criteria:

- Unauthorized use of streetlight circuits by developers and contractors creates additional power costs and liabilities for the city.

Condition:

- The TEFO Division of Public Works inspects, maintains and repairs traffic control devices (signals, signs, and road markings), street lights, and park lighting. TEFO also reviews street lighting, traffic signal, road projects and subdivision plans.
- Following an inspection of electrical services for streetlights at new developments, TEFO submits a request to the power company to install a meter and energize the service under the city's name. Once power has been established and staff are available, TEFO staff return to lock up the meter.

- Per TEFO staff, contractors and developers regularly connect to the city's energized meters to turn on streetlight circuits prior to final inspections and approval by the city. With this practice, the city is inappropriately paying for power usage by contractors and developers and the city is subject to increased liability if a meter is misused.
- Public Works plans to address this problem by requiring developers or contractors to request meter service from the power company in their name until the city takes ownership of the streetlights. The developers or contractors would then be required to accept financial responsibility for power costs and the liability for keeping the circuit safe and secure prior to transferring ownership to the city. With this plan, developers and contractors will be able to access power as needed without concern of disconnects by city staff.
- This plan has not yet been implemented and the documents for addressing this problem have not yet been created.

Cause:

- Long-standing practice of developers and contractors.
- Limited staff to ensure developers and contractors are not accessing power.

Effect:

- The city is paying for power used by developers and contractors who have inappropriately accessed city meter boxes.
- Potential liability to the city for misuse of meter boxes.

Recommendation:

1. Public Works should move forward in making all necessary changes to address the problem of developers and contractors inappropriately accessing the city's power meters and thereby eliminate the cost of unauthorized use of power from the meters and the liability of the city for any misuse of the meters. The department should obtain legal counsel where needed to implement the change.

**MANAGEMENT RESPONSES
TO
AUDIT OF CONTROLS OVER CITY UTILITY PAYMENTS AND COSTS**

Recommendations 1.1, 2.1, 3.1, 4.1, 5.1, 5.2, and 6

Management Plan of Action – City Manager’s Office:

The issues brought forth in the audit will need to be addressed through organizational change. To that end, the City Manager’s Office has created a Utility Management Task Force to address the issues. The Task Force will include, at a minimum, representatives from Finance and Business Services, Field Operations, Public Works, and Information Technologies. The Task Force will facilitate the development of a coordinated process for obtaining, managing and processing payments for utility services, specifically power, water, gas, cable, and solid waste.

The process will include identification and analysis of existing processes and lines of responsibility. It will identify the functional needs of utility stakeholders and create both an organizational as well as a technical solution to manage the program. This Task Force will address the recommendations brought forward in Findings 1 through 6.

We estimate addressing organizational needs in six months, and technological needs in 15 to 18 months. We appreciate the efforts of the auditors in their review of this process and look forward to their continued input as we respond to their findings.

Recommendation 1.2

Management Plan of Action – Information Technologies:

Information Technologies Management agrees that a program to monitor usage would establish the bases for identifying support solutions. The functional needs of the program, as well as whom and how many would be using it will help I.T. determine the appropriate system requirement. Early identification of the software requirements, users, and access will aid in the determination of the hardware component requirement as well. Additionally, the assessment of third party monitoring tools in the market could both automate and accelerate the discovery of system solutions and the implementation process.

Recommendation 7.1

Management Plan of Action – City Manager’s Office and Public Works:

We concur with the findings and recommendations of the auditors and have begun the development of a strategy to deal with unauthorized attachments and/or connections over the next 6 months.